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Embargo

TREASURY COMMENTS OK

Dear Mr. Speaker/Mr. President

To Elaine DiFederico

(3:30 1/14)

The Soviet invasion of Afghanistan and the installation of a puppet government is an extremely serious threat to peace. The Soviets' aggression threatens vital U.S. security and foreign policy interests:

- It places the Soviets within aircraft striking range of the vital oil resources of the Persian Gulf;
- It threatens a strategically located country, Pakistan;
- It poses the prospect of increased Soviet pressure on Iran and on other nations in the Middle East;
- Above all, it shows that the Soviets will use force to take over a neighboring country.

The Soviets' conduct demands vigorous and decisive response by the United States. I intend to show the U.S.S.R. in tangible ways that aggression is costly and will be met with firmness.

Note - The final draft given to E-W Trade for clearance - Received OKay from our standpoint.

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Long-Term

To accomplish this, I have, as one of a range of measures, directed the Secretary of Commerce to restrict exports and re-exports of certain agricultural commodities from the United States to the U.S.S.R., except for exports of wheat and corn ^{the U.S./U.S.S.R. Grain Agreement} authorized under the Agreement of the Supply of Grain of October 20, 1975. These restrictions became effective January 7, 1980 under regulations issued by the Department of Commerce. The restrictions were initially made applicable to a broadly described group of agricultural commodities and products as a means of quickly achieving the objective of stopping exports of ^{certain} items. [significant in terms of the grounds on which I acted] The Department of Commerce is revising the list to eliminate items for which controls are not warranted.

I have acted under authority of Sections 5 and 6 of the Export Administration Act of 1979. I transmit herewith my report pursuant to Sections 6(e) and 7(g) (3) of the Act.

to assure that the policy is replaced by a more effective one
[I take this action recognizing that other countries are major exporters of agricultural commodities. At my direction, United States officials ^{have consulted with the Government of} ~~are consulting with~~ other major agricultural exporters ^{in countries} to seek their cooperation in ~~restricting~~ ^{managing} their own exports in harmony with our actions, and negotiations to this end will continue. ^{as necessary, yet} I have not ~~been in a position to~~ ^{be in a position to}

Because of the urgency of the situation,

End here.

~~to fully ascertain~~

~~act with full knowledge of~~ the extent to which such

agricultural commodities may be available to the Soviets from

other sources. I considered the reports of the Soviet

^{5r}aggression and the consequences of a failure to take prompt and

decisive action and ^{I have} determined, pursuant to Section 4(c) of the

Act, that ~~[whatever the extent of availability]~~ ^{a delay in imposing} ~~the absence of~~ ✓

such controls would prove detrimental to the foreign policy and national security interests of the United States. *S. 100* ?

Further, pursuant to Section 6(d) of the Act, I have determined that reasonable efforts are being made to achieve the purposes of these controls through alternative means; nevertheless, such alternatives would not comparably advance the foreign policy and national security interests of the United States.

determinative to these
- 2 ways

I have also directed that the Secretary of Commerce, in consultation with the Secretary of Defense and other appropriate officials, review and revise our policy with respect to the export of high technology and other strategic items to the Soviet Union. This review is to proceed with the utmost urgency. Effective January 11, 1980 the Department of Commerce suspended all outstanding licenses and authorizations for exports to the Soviet Union and announced that it has

suspended the issuance of new licenses and authorizations. The review I have directed will also consider whether validated licenses should be required for any other exports currently permitted to the Soviet Union under general license. The Secretary of Commerce has ^{at}announced on January 11, 1980 his denial following expedited review on national security grounds of eight license applications for export of high technology items to the Soviet Union.

Sincerely,

Jimmy Carter

**Restrictions on Agricultural Commodity Exports to the USSR:
Report to the Congress Pursuant to the
Export Administration Act of 1979**

Acting pursuant to a Presidential directive issued on January 7, 1980 under the authority of Sections 5 and 6 of the Export Administration Act of 1979, the Department of Commerce has issued rules effective 11:59 pm January 7, 1980, restricting the export of certain agricultural commodities and products to the Soviet Union. (45 Fed. Reg. 1883, Jan. 9, 1980). This is the Report required by Sections 6(e) and 7(g)(3) of the Act with respect to the imposition of these export controls.

**These Restrictions Further Significantly U.S. National
Security and Foreign Policy Interests**

The Soviet invasion of Afghanistan and the installation of a puppet government is an extraordinary and grave act of aggression which threatens vital U.S. security and foreign policy interests. This invasion is an extremely serious threat to peace.

-- It places the Soviets within aircraft striking range of the vital oil resources of the Persian Gulf;

- It threatens a strategically located country, Pakistan;
- It poses the prospect of increased Soviet pressure on Iran and on other nations of the Middle East;
- Above all, it shows that the Soviets will use force to take over a neighboring country.

These extraordinary circumstances demand prompt and forceful responses by the United States. We cannot continue to do business as usual with the Soviet Union in the face of their blatant aggression. Accordingly, restrictions have been placed on agricultural exports to the USSR. These exports make a substantial contribution to Soviet strength. Their limitation is a critical element in our efforts to demonstrate to the USSR in tangible ways that it cannot engage in aggression with impunity.

Probability of Success. The restrictions will achieve their intended purpose because they will have a significant impact on the Soviet economy. They will impress upon the Soviet people the consequences of their government's actions. The restrictions will mean the loss of up to half of projected grain imports for FY 1980. Combined with the 48 million ton shortfall from planned 1979

production, the effect will be a major reduction in availability of livestock feed and, in turn a significant reduction in USSR meat production. The supplies covered by these controls would make a significant contribution to the military potential of the Soviet Union which would prove detrimental to the national security of the of the United States.

Moreover, ~~contacts with the governments of other major grain supplier countries, indicate that there will be~~ *have agreed that they will not directly* ~~indirectly replace the grain that would have been at~~ *substantial cooperation in limiting foreign availability* ~~to the Soviet Union prior to the actions announced by Pres Carter.~~

Compatibility with Foreign Policy. The controls are essential to achieve U.S. national security and foreign policy objectives and are compatible with overall U.S. policy toward the USSR, for the reasons given above.

Foreign Reaction. Many countries have expressed support for these actions by the United States, and United States officials are urgently consulting with other suppliers to seek complementary actions.

Economic Impact of Controls. The most significant effect of the control on U.S. exports relates to the 17 million tons of grain previously authorized for the Soviet Union, valued at

about \$2.3 billion. In FY 1978 U.S. exports of all agricultural commodities to the USSR were \$1.9 billion, and in FY 1979 \$2.2 billion. These exports constituted 6.8 percent of total U.S. agricultural exports in FY 1978 and 6.9 percent in FY 1979. Grain exports accounted for about 80 percent of the value of U.S. agricultural exports to the USSR in FY 1979. Soybeans accounted for another 15 percent. The U.S. provided 65.1 percent of Soviet grain imports in FY 1978 and 77.6 percent in FY 1979.

Total Soviet grain utilization is estimated at 231 million metric tons from July, 1978 to June, 1979, and -- prior to imposition of these restrictions -- was projected to be 228 million tons for July, 1979 to June, 1980. U.S. grain exports (11.1 million tons) accounted for 4.8 percent of the 1978/1979 Soviet use. Prior to these restrictions, U.S. exports were projected to provide 11.2 percent of the Soviets 1979/1980 utilization (256.5 million tons). ✓

The United States is the world's largest exporter of wheat and corn and will remain so even after the suspension of agricultural commodity exports to the Soviet Union. The United States has been ⁱⁿ undertaking consultations with other governments to ^{obtain a green light} ~~remove the possibility~~ that other suppliers would ^{not} take advantage of U.S. action to build up their own competitive position at U.S. expense. because the export

restriction has been imposed on agricultural commodities destined to the USSR in response to a Soviet act of aggression and on the basis of fundamental U.S. national security and foreign policy interests, it is unlikely that such action will diminish the overall reputation of the United States as a reliable supplier.

With respect to foreign availability of wheat and corn, [the United States is the major supplier of these commodities in world trade. At this time,] it appears that there are limited additional supplies available in the world market. With

respect to soybeans and soybean products, ~~there is~~ *may be adequate to meet the* ~~substantially greater~~ foreign availability. The availability of these commodities to the Soviet Union will depend ~~therefore~~ upon the cooperation of foreign suppliers *to* *relative small Soviet* *needs. This* *limit exports.*

In the absence of offsetting domestic policies the restriction on agricultural exports to the USSR would have an economic impact primarily on grain farmers, on firms and employees in the grain sector, on certain rail and barge lines and on communities in grain producing areas.

Active consultations are underway with representatives of farm organizations and trading companies to assure that in the imposition of restrictions we will reduce, to the greatest extent possible, economic loss and disruption of markets.

Absent offsetting action, it is estimated that the restrictions on the export of agricultural commodities to the Soviet Union would reduce 1980 farm income by approximately \$3.0 billion.

The Secretary of Agriculture has been directed to take a number of actions, using authorities already available under current law, to ensure that the suspension of exports to the USSR will not fall unfairly on farmers and on ^{the} grain marketing system. To assure that it does not, he has taken the following actions:

To prevent immediate market congestion

The Department of Agriculture:

o requested that future trading in wheat and corn be suspended for the market days, January 7 and January 8;

o has announced that it will purchase up to 4 million tons (150 million bushels) of wheat, including the assumption of the contractual obligations ^{of} up to 3.7 million tons (135 million bushels) that will not be shipped to the Soviet Union;

o is preparing to assume the contractual obligation ^{of} up to 10.0 million tons (395 million bushels) of corn.

None of these grain purchases will be resold on the domestic market until it can be done without adversely affecting market prices. All contractual assumptions will be made at prices that will protect against losses, but will not guarantee profits.

To fully offset the intermediate term impacts of the suspension of sales the USSR

The Department of Agriculture has taken action to:

- o increase the wheat loan price to \$2.50^a ₁ bushel;
- o increase the corn loan price to \$2.10 a bushel, with comparable increases in loan prices for the other feed grains;
- o increase the reserve release price to \$3.15 a bushel for wheat--representing 150 percent of ^{the} ₁ new loan price;
- o increase the reserve call price to \$4.65 a bushel for wheat--representing 185% of the new loan price;
- o increase the reserve release price to \$2.63 a bushel for corn--representing 125 percent of the new loan price;
- o increase the reserve call price to \$3.05 a bushel for corn--representing 145 percent of the new loan;

- o make comparable increases in reserve release and call prices for the other feed grains;

- o waive first year interest costs for the next 13 million tons of corn (corn only) entering the reserve;

- o increase reserve storage payments from 25 to 26-1/2 cents a bushel for all reserve commodities except oats, which is increased from 19 to 20 cents a bushel.

To facilitate long-term supply and demand adjustments

The Department of Agriculture is now evaluating:

- o increased commercial grain exports, and increased food donations under P.L. 480 where appropriate;

- o increased production of fuel alcohols from grain and other agricultural commodities;

- o acreage diversion programs.

These steps are intended to offset the reduction in farm income and, assuming a suspension through 1980, will limit the reduction in value of agricultural exports to approximately \$2.0 to \$2.25 billion (instead of \$3 billion). It is

anticipated that these actions will result in increased budgetary costs of \$2.5 to \$3.0 billion during FY 1980 and 1981. Most of the increase in budget outlays will be associated with removal of wheat and corn from the market and, therefore, the budget impact will be lessened when these commodities move back into the market and loans are repaid or sales proceeds are obtained.

Enforcement

No unusual problem is anticipated in enforcing the control on United States direct sales of agricultural products. With respect to reexports from third countries to the USSR, the fungible nature of the commodities makes it somewhat difficult to control their ultimate destination. The Department of Commerce will watch this situation closely and will take enforcement action in case of violations.

Foreign Policy Consequences of Not Imposing Controls

If this and other measures which have immediate and practical effect had not been imposed, United States reactions to Soviet aggresssion would have been limited largely to words. Vigorous and far-reaching action was required to confirm to the Soviets that they cannot with impunity engage in acts of aggression which threaten the security interests of the United States.